South Carolina Unemployment Insurance Trust Fund Annual Assessment FY2012

Executive Summary

For each fiscal year, the South Carolina Department of Employment and Workforce (SCDEW) is required to submit, by October 1st, a report to the General Assembly, the Review Committee, and to the Governor indicating the amount in the Unemployment Compensation Trust Fund (Trust Fund) and making an assessment of its funding level in accordance with Section 41-33-45 of the South Carolina Code of Laws.

Current Status

The Trust Fund became insolvent in December 2008 (FY2009), and it is expected to regain solvency in 2015. Unemployment benefit outlays for FY2012 totaled $410,431,401. Revenues generated to fund the unemployment insurance (UI) programs totaled $388,907,575[1].

As of June 30, 2012, the Trust Fund had a positive adjusted balance of $326,883,924[2] but only after a federal loan of $782,187,983. The Trust Fund balance excluding federal advances would be -$455,304,059. The health of the Trust Fund has improved dramatically over the past fiscal year. For the first time since FY2008 the state has not had to borrow any funds from the federal government to make benefit payments. Tax revenues have been sufficient to allow the state to begin repaying outstanding federal loan and benefit payments to unemployed individuals continue to fall as the economy recovers.

Future Outlook

Based on current economic conditions, it is projected that approximately $351.9 million in state UI benefits will be paid in FY2013. That amount would be about $50.4 million less than the benefits paid in FY2011. Legislative changes made in May 2010 raised the taxable wage base for CY2011 to the first $10,000 of wages, up from the first $7,000 in CY2010. The taxable wage base increased to $12,000 for CY2012. The changes to the unemployment insurance tax system also restructured the method used to determine the contributions due from businesses. The projection for contributions to be raised in FY2013 is $593.7 million, which more closely matches the anticipated revenue needs of the system. Over the next four years, planned contributions will exceed anticipated benefit outlays so that the Trust Fund can continue to regain solvency.

[1] FY2012 contributions are lower due to the rate recalculation associated with General Fund

[2] Trust Fund balance includes cash deposited in the state's Unemployment Compensation Trust Fund, its clearing and benefits payment accounts, advances from the federal government, amounts due and payable as payment in lieu of contributions by a non-profit organization, and any contributions and interest received by July 31st, per SC State Code Section 41-31-80.

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Full Report

Current Unemployment Compensation Fund Status

The adjusted Unemployment Compensation Trust Fund balance as of June 30, 2012 was $326,883,924[3].No federal advances were needed to pay state UI benefits during FY2012. Cumulative advances from the federal government as of June 30, 2012 totaled $782,187,983.

Recent Unemployment Compensation Fund History

Historical data of the principal components of the Trust Fund are outlined in Table 1. A graph of the historical contributions, benefits, and fund balance is shown in Figure 1.

Table 1: Unemployment Compensation Fund Components, FY2007-2012

Component	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012
Advances[4]	0	0	344,881,505	541,780,847	115,174,767	0
Contributions	276,719,421	272,372,131	244,700,285	289,312,460	508,568,694	388,907,575[5]
Interest	12,621,783	10,040,353	2,326,473	-	-	-
Benefits	328,437,814	393,882,441	767,107,651	776,761,390	502,607,650	410,431,401
Adjustments	4,992,302	5,282,067	31,695,096	(8,979,549)	-	16,970,735
Fund Balance	309,030,476	203,042,583	59,538,291	104,890,659	323,207,676	326,883,925
Total Wages	51.3 billion	53.0 billion	50.7 billion	49.3 billion	51.9 billion	54.0 billion

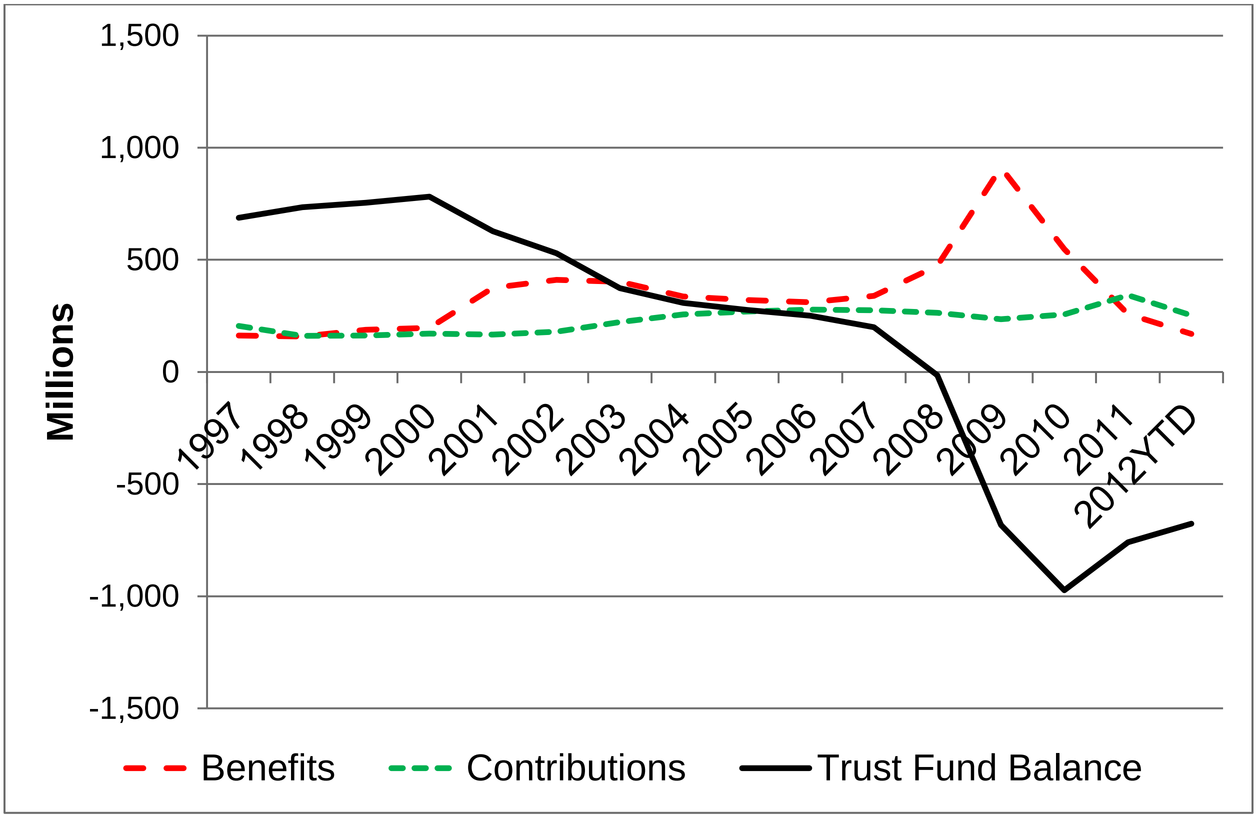
Note: Certain adjustments have been made to correctly carry-forward prior year balance.

[3] Trust fund balance includes cash deposited in the state's unemployment trust fund, clearing and benefit payment accounts, advances from the federal government, amounts due and payable as a payment in lieu of contributions by a non-profit organization, and any contributions and interest received by July 31st, per SC State Code Section 41-31-80. The trust fund balance excluding federal advances would be -$455,304,059.

[4] By fiscal year; **not** cumulative.

[5] FY2012 contributions are lower due to the rate recalculation associated with General Fund appropriations that led to a significant level of credits and refunds issued.

Figure 1: Historical Contributions, Benefits, and Fund Balance, CY1997-2012[6]



The components of the Trust Fund are defined as follows:

- Contributions – Contributions received from employers as of June 30th.
- Interest – Federal Treasury interest posted to each state's Trust Fund account quarterly.[7]
- Benefits – State funded benefit payments less benefit overpayment recoveries.
- Adjustments – These are between year adjustments after one year's calculation and before the next year (i.e., Interstate Benefits, Reed Act Funds, etc).
- Fund Balance – Adjusted Trust Fund balance.
- Total Wages – Total covered payroll wages reported by all covered employers for the period beginning July 1 and ending June 30.

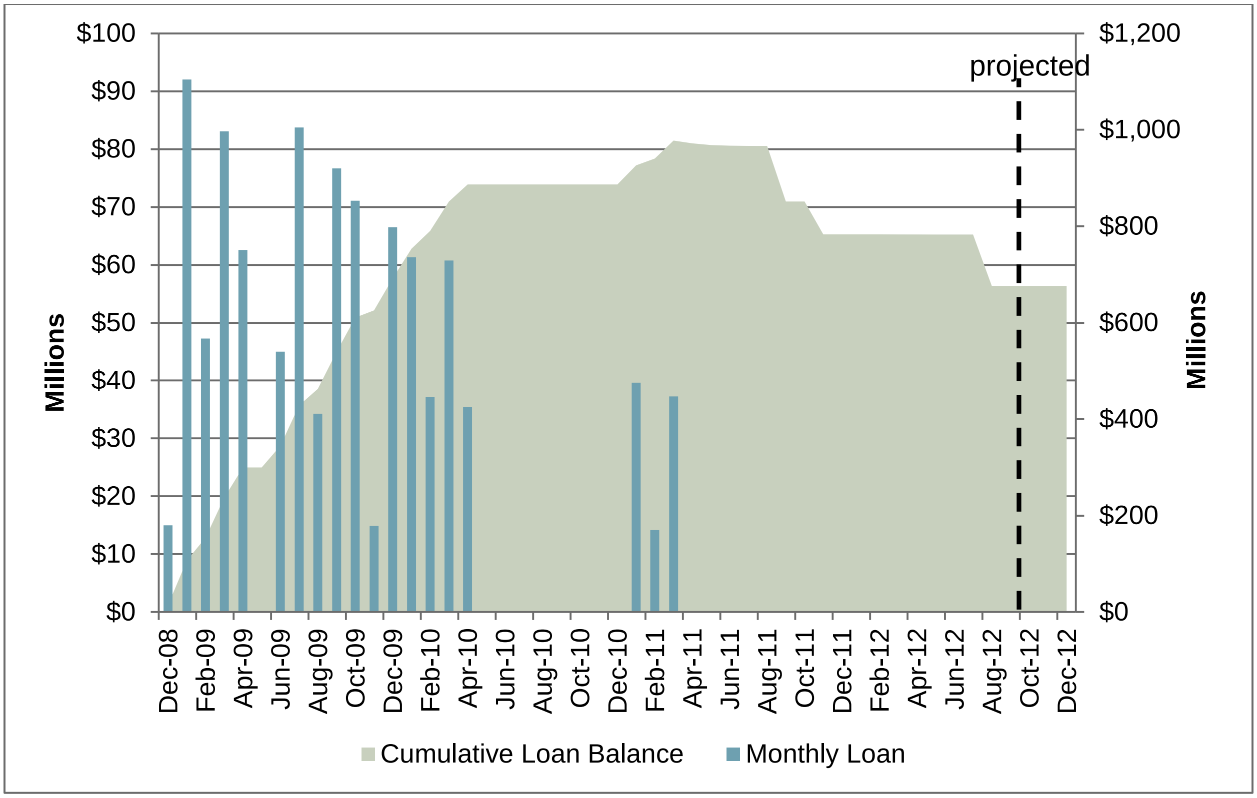
Overview of Advances

The Trust Fund became insolvent in December 2008 and was required to draw significant federal unemployment advances between December 2008 and April 2010. Additional federal advances were required between January and April 2011. Figure 2 shows the borrowing by month since December 2008. An improvement in the economy, higher than anticipated

[6] US Department of Labor: Financial Handbook 394 (information from USDOL excludes all federal advances and other fiscal year-ending adjustments)
[7] No interest is due to the state Trust Fund account from the Federal Treasury when federal advances remain outstanding.

contributions in the last half of FY2010, a one-time infusion of incentive funding from the federal Department of Labor, and the new tax structure combined to allow the Trust Fund to reduce borrowing between April 2010 and April 2011. Since April 2011, no additional funds have been necessary beyond normal tax contributions to fund the declining benefit payments.

Figure 2: Monthly and Cumulative Advance Balance , December 2008-December 2012



Analysis of Factors Affecting the Trust Fund Level

1. **Contributions** - Total employer contributions decreased by $119,661,119, from $508,568,694 in FY2011 to $388,907,575 in FY2012. This decrease was mainly the result of an increase in credits and refunds issued due to General Fund appropriation. Base contributions actually increased by $25.4 million when excluding credits and other adjustments.
2. **Interest** – While the state is in loan status, it will not earn interest on the average daily Trust Fund balance.
3. **Benefits** – There was a $92.2 million decrease (-18.3%) in net benefit payments – from $502,607,650 in FY2011 to $410,431,401 in FY2012. Table 2 tracks the revenue and benefit outlays and illustrates the revenue deficit for the past seven fiscal years.
4. **Economic Growth** – During the past year, economic growth in terms of "total covered wages" increased from FY2011. Total covered wages increased from $51.9 billion for FY2011 to $54.05 billion for FY2012, a 4.1% increase.

Table 2: State UI Revenue and Benefit Payments in millions, FY2007-2012

Year	Revenues	Benefit Payments	+Surplus / -Deficit
2012	$388.9	$410.4	-$21.5[8]
2011	$508.6	$502.6	$6.0
2010	$289.3	$776.7	-$487.4
2009	$247.0	$767.1	-$520.1
2008	$287.9	$393.9	-$106.0
2007	$294.3	$328.4	-$34.1

Future Unemployment Compensation Fund Outlook

The outlook for the Trust Fund will depend on many factors including 1) change in benefit outlays; 2) change in contributions; and 3) the change in total wages.

1. **Benefit Outlays** – Based on current economic conditions, benefit outlays are expected to decrease for FY2013. Benefit outlays for FY2013 are estimated to be $351 million.
2. **Contributions** –Under the new system, the tax rates will be set to raise an estimated amount of revenue that will be needed to pay:
    a. **Benefits** – Estimated to be $351 million in FY2013.
    b. **Loan Principal Repayment** – Estimated to be $180 million for FY2013;
    c. **Interest Payment** - Estimated to be $30 million for FY2013;
3. **Total Covered Wages** – Total covered wages for FY2011 are outlined in Table 3. Total covered wages increased from $51.9 billion to $54.0 billion from FY2011 to FY2012 (4.1%). As the economy continues its slow recovery, total covered wages are expected to continue to increase in FY2013. This trend was seen in FY2012. Total wages for FY2012 were higher than FY2011 by more than four percentage points. A larger volume of covered wages will increase contributions which will help improve the Trust Fund balance and begin to repay the state's outstanding advances.

Table 3: Total Covered Wages in billions, FY2011-2012[9]

Quarter Ending	FY2012	FY2011	% Change
September 30	$13.42	$12.63	+6.3%
December 31	$13.76	$13.78	-0.1%
March 31	$13.67	$12.65	+8.0%
June 30	$13.20	$12.87	+2.6%
Total	**$54.05**	**$51.93**	**+4.1%**

Federal Unemployment Tax Act (FUTA) Credit Reduction

If any state borrows federal funds to pay unemployment benefits on or after January 1st and repays the borrowed funds by September 30th of the same year, the advance is interest free and

[8] Deficit due to issuance of refunds and credits associated with General Fund appropriations and recalculation of 2011 tax rates.
[9] Includes estimated wage reports from program "RP500A."

classified as a cash flow loan. If a state borrows federal funds and has an outstanding balance on January 1st for two consecutive years and the borrowed funds are not repaid by November 10th of the second year, employers will lose 0.3% of their FUTA tax credit (typically 5.4% credit on 6.2% tax) each year the advance remains outstanding.

A state can avoid a FUTA credit reduction by meeting three requirements:

1. By November 10, repay all advances taken since the prior November 10 plus an amount equal to the estimated credit reduction,
2. Avoid borrowing until after the next January 31, and
3. Take action after the date of the first advance to increase solvency by an amount greater than or equal to the estimated credit reduction amount.

In CY2010, South Carolina was unable to meet these requirements, and as a result, employers in the state paid an additional $21 per worker on their Federal Unemployment Tax returns in January CY2011. Due to the restructuring of the unemployment insurance tax system, changes to benefit laws, and an improving economy, SCDEW avoided a second credit reduction in CY2011 and also anticipate avoiding a third credit reduction of 0.9% in CY2012.

To meet these requirements, South Carolina has to repay by November 10, 2012, a total of $102.9 million which is equal to the potential credit reduction and avoids borrowing until after January 31st. SCDEW paid the required amount on August 20, 2012, and has applied to the Secretary of Labor to be certified for no additional reductions in November 2012.

Interest Payments

The American Recovery and Reinvestment Act, signed in February of 2009, provided for a waiver of interest payments for advances made in 2009 and 2010. That waiver expired December 31, 2010. The state's first interest payment on outstanding advances was due September 30, 2011 for $26.5 million. The state has an additional interest payment due on September 30, 2012 which is projected to be approximately $25.3 million.

Unemployment Trust Fund Reforms

The South Carolina General Assembly passed extensive reforms to the state's unemployment insurance system in the spring of 2010 and made additional changes in both the 2011 and 2012 legislative sessions. Some of these reforms took effect immediately, but the majority of the reforms impacting the Trust Fund became effective January 1, 2011. Below is an overview of each change that impacts the UI Trust Fund.

Taxable Wage Base

In 2011, the taxable wage base increased to the first $10,000 of a worker's wages. In 2012, this increased to $12,000, and will increase to $14,000 in 2014. These were the first increases in the state's taxable wages since 1983 and they put South Carolina closer to the national average of slightly over $15,000.

Experience Rating System

The tax reforms also changed the method the state uses to “experience rate” employers. Previously, South Carolina used a reserve ratio system, and beginning in 2011, the state began using a benefit ratio system. For tax years 2011, the state used seven years of available data to compute business’ benefit ratios. This increased to eight years of available data for tax year 2012 and will increase to nine years for tax year 2013. In 2014, that time will be shortened to the previous three years of experience per state law.

The benefit ratio system does not consider employers’ tax contributions—only benefits charged over a defined period. Benefit charges are divided by a measure of the business’ taxable wages to determine their benefit ratio.

This benefit ratio is then used to determine an employer’s tax rate. Employers with the highest benefit ratios typically pay higher tax rates while employers with the lowest benefit ratios pay the lowest tax rates.

Tax Rates

The new tax system implemented in January 2011 eliminated fixed tax rate schedules, which tend to ignore the revenue needs of the system. The new rates are set each year such that the entire schedule raises the income that is required to pay benefits, make loan repayments, and pay interest on those advances while at the same time setting rates for employers that more accurately reflect the risk they pose to the trust fund.

Employers are ranked from lowest to highest benefit ratio and assigned a tax class 1 through 20, based on this benefit ratio. Approximately 5% of taxable wages are assigned to each class. The employers with the lowest benefit ratios are assigned to tax class 1 (which has the lowest tax rate) and employers with the highest benefit ratios are assigned to tax class 20 (which has the highest tax rates).

Tax rates also vary with the taxable wage base. A tax rate of 1% with a taxable wage base of $7,000 raises approximately the same amount of revenue as a 0.5% tax on a taxable wage base of $14,000. Thus, as the taxable wage base increases from 2011 to 2014, the assigned tax rates will fall, even if the system is raising the same amount of revenue.

Tax Surcharges

While the Trust Fund is in debt status, the laws governing SCDEW provide for two surcharges—one for loan repayment/trust fund rebuilding and one for interest payments. The revenue needed for loan repayments is added directly to the revenue required to pay benefits to determine the amount of regular contributions each employer will owe. This results in a trust fund rebuilding surcharge that follows the same experience rating process as regular contributions. The interest surcharge is also designed to be experience rated, although it has a slightly different structure compared to the regular and trust fund rebuilding contributions. Once the Trust Fund advances from the federal government are repaid, the interest surcharge will go to zero although the Trust Fund rebuilding surcharge will remain in place until the Trust Fund can be brought up to the new solvency standard, an average high cost multiple of one (discussed in more detail below).

Reduction in State Weekly Benefits

In June 2011, the General Assembly passed a bill reducing the regular state unemployment benefits from a maximum of 26 weeks to a maximum of 20 weeks. This reduces the amount of revenue to be collected from businesses to cover benefit costs and thus reduces employer taxes in the coming years.

Misconduct and Cause Provisions

During the 2012 legislative session, the General Assembly also passed new laws related to disqualification from unemployment benefits for individuals who were separated from their jobs due to "misconduct." Misconduct is now defined in state law and requires a 20 week disqualification from benefits. The law change also continued disqualification provisions for individuals who were fired for "cause." The number of weeks of disqualification for cause is a range of 5 to 19 weeks. Prior to the law change, SCDEW had implemented a policy in April 2012 where it imposed a 16 week minimum disqualification for all "cause" determinations except those that came as a result of medical absenteeism. For medical absenteeism claims, the department assigns a range of 5 – 10 weeks. The disqualification parameters used for cause remain intact other than the maximum number of weeks which has decreased from 20 to 19 because 20 weeks is reserved for misconduct only. These new provisions will also contribute to a decline in benefits paid to individuals in the state, and they represent another source of potential savings to the Trust Fund.

Regional Comparisons

Table 4 below compares the ranking of South Carolina's current Trust Fund reserves with that of 52 other states and territories relative to five commonly used measures. South Carolina ranks below average in most measures and ranks as one of the states with the largest loan relative to the total wages paid in the state. Currently there are 28 states borrowing from the federal government to maintain benefit payments to unemployed workers.

Table 4: Relative Trust Fund Comparisons[10]

Measure	Ranking
State Revenues	26
Trust Fund Level	22
Trust fund as % of Total Wages	25
Outstanding Loan Balance	15
Loan per Covered Employee	15
Loan as % of Total Wages	10

Table 5 compares states in the southeast region to the national average for Trust Fund solvency. The traditional standard for Trust Fund solvency is to have reserves sufficient to pay at least 52 weeks of benefits at the current payout rate. If the fund has reserves sufficient to pay one year's worth of benefits, it is said to have a high cost multiple (HCM) of 1.0. Values less than 1 indicate that the fund is able to pay benefits for less than one year at current payout rates. Values over one typically indicate a healthy trust fund level.

[10] US Department of Labor: UI Data Summary: 1st Quarter CY2012.

Another measure of trust fund solvency is the average high cost multiple (AHCM) which is similar to the HCM except that it uses the highest three year average benefit payout level over the previous 20 years (or three recessions, if longer). Further information on this measure will be discussed in the Solvency Standards section on Page 11.

Table 5: Total Covered Wages in billions, FY2010-2011[11]

State	Trust Fund as a % of Total Wages	High Cost Multiple (HCM)	Average High Cost Multiple (AHCM)
Alabama	0.01	-	-
Florida	0.01	-	-
Georgia	0.01	-	-
Kentucky	0.01	-	-
Mississippi	1.20	0.65	1.20
North Carolina	0.18	-	-
South Carolina	0.14	-	-
Tennessee	0.26	0.16	0.34
U.S. Average	0.19	-	-

Because most states have an outstanding loan balance with the federal government, they do not have sufficient funds to pay any benefits and thus do not have a high cost multiple. Mississippi and Tennessee are the only states in the southeast to have a positive trust fund balance without federal dollars. Mississippi's trust fund has sufficient reserves to pay out more than 12 months worth of benefits at the current payout rate. Tennessee has very low but positive reserves capable funding less than 4 months' worth of benefits.

The most recent data released by the federal government shows that South Carolina had the third highest total unemployment rate in the region during FY2011 (shown in Table 6 below). South Carolina has the second lowest aggregate taxable wages and the fourth highest average weekly benefit amount.

Table 6: Regional Comparison fo Revenue Sources and Expenditures[12]

State	Taxable Wages (billions)	Average Tax Rate	Taxable Wage Base	Total Unemployment Rate	Average Weekly Benefit	Revenue (millions)
South Carolina	$14.6	3.43%	$12,000[13]	9.9%	$235.77	$529.8
Florida	$50.5	3.31%	$8,000[14]	10.1%	$232.17	$1,876.5
Kentucky	$12.5	3.55%	$9,000	9.3%	$284.33	$485.3
North Carolina	$54.1	2.17%	$20,400	10.3%	$295.27	$954.0
Alabama	$13.3	3.78%	$8,000	8.5%	$204.04	$553.8
Mississippi	$10.9	2.15%	$14,000	10.3%	$194.55	$268.9
Tennessee	$21.3	3.36%	$9,000	8.8%	$234.51	$750.2
Georgia	$30.5	2.48%	$8,500	9.6%	$269.51	$782.9

[11] Ibid.
[12] US Department of Labor: UI Data Summary: 1st Quarter CY2012.
[13] Increased to $12,000 effective January 1, 2012.
[14] Legislation increases this in 2012.

Taxable wages have a direct relationship with job growth. Increased levels of covered employment would generate more contributions to the Trust Fund account. In theory, a state's taxable wages have an inverse relationship with the average tax rate. South Carolina's taxable wage base for the first half of FY2012 was $10,000; for the second half of FY2012, the taxable wage base increased to $12,000.

The CY2013 taxable wage base will remain at $12,000, which is still below the national average of slightly more than $15,000. This taxable wage base increase combined with a restructuring of the tax rates should increase revenues generated by the state to pay benefits, repay outstanding loans, and make interest payments.

Solvency Standards

The most widely accepted measure of trust fund solvency is known as the Average High Cost Multiple (AHCM). This measure of whether a state has enough money to cover unemployment claims during an economic downturn was devised in 1995 by the federal Advisory Council on Unemployment Compensation. The AHCM is calculated by taking the trust fund balance as a percent of estimated wages for the most recent 12 months (also known as the reserve ratio) and dividing it by the Average High Cost Rate, which is the average of the three highest calendar year benefit cost rates, in the last 20 years or a period including three recessions, whichever is longer. Benefit cost rates are benefits paid as a percent of total wages in taxable employment. The Department of Labor recommends that a state have an AHCM of 1.0, which means that the state has enough funds to pay one year of benefits at the Average High Cost. This should be sufficient to fund benefits during a moderate recession.

Table 7 shows South Carolina's three highest benefit cost rate years, the state's actual (or projected) reserves as of December 31, and the trust fund balance that would be required to achieve the recommended solvency level of 1.0.

Table 7: Solvency Standards and Projections[15]

Calendar Year	High Cost Years	Average High Cost Rate	Actual Reserves (in millions $)	Required Reserves (AHCM=1.0) (in millions$)
2005	1981, 1982, 1983	1.38	$276,459	$656,823
2006	1981, 1982, 1983	1.38	$251,315	$698,857
2007	1981, 1982, 1983	1.38	$199,183	$732,202
2008	1981, 1982, 1983	1.38	$-14,246	$732,799
2009	1991, 1992, 2008	0.91	$-682,074	$462,587
2010	1991, 2008, 2009	1.23	*$-816,672*	*$607,753*
2011	*1991, 2009, 2010*	*1.30*	*-$661,087*	*$681,425*
2012	*1991, 2009, 2010*	*1.30*	*-$554,587*	*$701,868*
2013	*1991, 2009, 2010*	*1.30*	*-$353,917*	*$722,924*

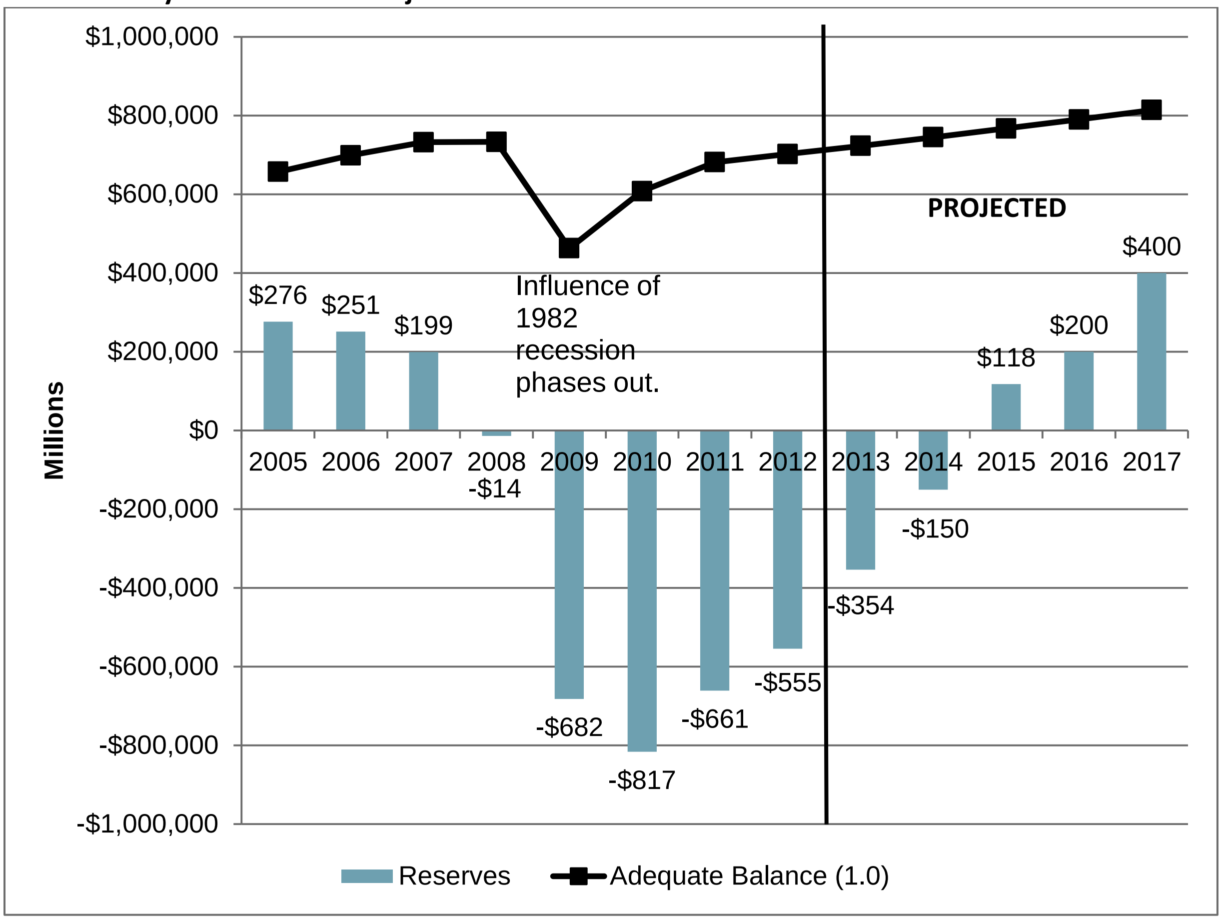
[15] US Department of Labor: Financial Handbook 394.

Calendar Year	High Cost Years	Average High Cost Rate	Actual Reserves (in millions $)	Required Reserves (AHCM=1.0) (in millions$)
2014	*1991, 2009, 2010*	*1.30*	*-150,227*	*$744,611*
2015	*1991, 2009, 2010*	*1.30*	*$117,743*	*$766,950*
2016	*1991, 2009, 2010*	*1.30*	*$200,000*	*$789,958*
2017	*1991, 2009, 2010*	*1.30*	*$400,000*	*$813,657*

Projections in italics

The same information presented in Table 7 is plotted in Figure 3.

Figure 3: Solvency Standards and Projections[16]



Once the Trust Fund has regained solvency (projected to be CY2015), trust fund rebuilding will continue until reserves are sufficient to support an AHCM of 1.0, as recommended by the USDOL.

[16] US Department of Labor: Financial Handbook 394.

Agency Initiatives to Protect the Trust Fund

Gross Misconduct and Compliance

Part of the legislative reforms adopted by the South Carolina General Assembly in March 2010 and spring 2012 required the agency to enforce harsher disqualification periods for claimants who had been fired for cause and misconduct and to disqualify individuals fired for gross misconduct. The results of these compliance measures have lowered the benefit payout levels. In April 2010, the minimum disqualification for being fired for cause was a 10 week disqualification. This minimum increased to 12 weeks in 2011, and beginning in April 2012, the minimum disqualification was increased to 16 weeks.

Table 8: Increased Disqualification for Misconduct, April 1-May 15[17]

Reason for Separation*	2011 Average Weeks of Disqualification	2012 Average Weeks of Disqualification	Change
Conflict with Co-Worker	10.9	16.5	+5.6 weeks
Failure to be Courteous	10.7	16.1	+5.4 weeks
Resign rather than Fire	11.7	17.1	+5.4 weeks
Attendance Issues	10.6	16.0	+5.4 weeks
Destruction of Property <$50	13.6	18.9	+5.3 weeks
Unsatisfactory Performance	10.9	16.2	+5.3 weeks
Failure to Work Required Overtime	10.8	16.0	+5.2 weeks
Tardiness	10.8	16.0	+5.2 weeks
Average	**11.4**	**16.4**	**+4.9 weeks**

*Shows only a selection of reasons.

Focus on Reemployment

A primary function of SCDEW is reemployment services for both UI claimants and non-UI claimant job seekers. The more quickly individuals become reemployed, the fewer benefits will be paid out, the larger contributions will be, and the safer the Trust Fund balance. The agency is committed to working with businesses and jobseekers alike to improve our ability to match our two customers together.

Beginning in August 2012, unemployment insurance claimants must do at least one of their four required job searches online through the agency's job services website known as "SC Works Online Services" or "SCWOS." This provides jobseekers with instant information about available jobs in their counties as well as training opportunities and other helpful tips for successful job hunting. It also provides the agency with verification that individuals collecting benefits are active in their search for work. Anyone who does not complete the mandatory search each week is denied benefits for that week, and called in to the local office for counseling on their job search activities. This should lead to faster reemployment for UI claimants as well as reducing benefit charges to the Trust Fund.

[17] Internal Reports Report RE11

The agency has also initiated an intensive reemployment assistance program in 16 offices across the state where claimants are given a personalized, seated counseling session with a specially trained staff member to target that claimant's best employment opportunities. If the claimant has not found a new job within the next 2 to 4 weeks, he or she is brought back to the office for a second round of intensive services to determine additional strategies or make adjustments to the claimant's expectations of his or her likely job market. At all times, the claimant is counseled that a new job is better than no job, and that the agency will make all of its resources available to help the claimant secure employment. This intensive reemployment assistance program is funded by a grant from the United States Department of Labor, and if the program is as successful as the agency anticipates, it will apply for additional funding to expand the program from 16 offices to as many offices as it can afford to staff.

In addition to focusing efforts on its claimant customer base as a means to focus on reemployment, the agency has also been actively pursuing a stronger partnership with the business community. Business roundtables are hosted on a regular basis throughout the state to highlight the services and opportunities SCDEW offers to businesses to find qualified workers. SCDEW also partners with both private-sector and other government agencies to bring training for high-skilled manufacturing and other critical labor market needs. Moreover, SCDEW aggressively pursues opportunities for small and large businesses alike to take advantage of "On the Job" training programs funded by the federal government, as well as actively helping veterans find employment after they have served our country.

The agency is committed to strengthening its relationships with businesses through its Business Roundtables as well as any other occasion the agency can find to allow the business community to share its feedback on SCDEW's processes, programs, and initiatives that are working or could use improvement. Through these forums, the agency also has the opportunity to share news of legislative changes, new technologies, upcoming events and agency changes.

Integrity Efforts

The newly formed Integrity Department at SCDEW is responsible for all compliance and enforcement activity for the Unemployment Insurance Division. Integrity activities are designed to prevent, detect, reduce, and recover improper payments in the UI Program, as well as ensure business taxes are charged and paid properly. In addition to leading the Integrity Department's teams, the Director of the Integrity Department also heads the agency's cross-functional Integrity Task Force that pushes an ambitious agenda to innovate and improve prevention and recovery methods for benefit overpayments and tax debits through new staffing models and technology tools.

In 2012, the agency was able to automate the primary method of identifying overpayments with the implementation of a software program called BARTS. BARTS compares payments made by employers to newly hired individuals to payments made by SCDEW to individuals receiving unemployment insurance benefits. When BARTS finds a "match" of an individual who appears to be receiving both income and unemployment benefits, SCDEW stops paying that person and immediately begins an audit to determine if that in fact occurred. There are occasions where the timing of the information is such that a legitimate situation existed where no improper payments were paid; however, until that can be determined, no further benefit payments are made. Automating this process will result in fewer overpayments being made, thereby increasing the safety of the Trust Fund. And, although these processes are not likely to be automated in 2012, the agency is also working to cross match its data with the Department of Corrections, State Retirement System, Workers Compensation, and Social Security Disability databases for even further improved fraud detection.

Beginning with 2013 federal tax returns, SCDEW will start intercepting refunds for people who have not re-paid their overpayments. Through a federally sponsored program known as “TOP” (the Treasury Offset Program), SCDEW has partnered with the United States Department of Treasury to automatically intercept federal tax refunds after having given due notice to claimants and former claimants who have yet to re-pay their debts to SCDEW. A similar program is already in place to intercept state tax refunds (State Debt Offset Program). Both tax return intercept programs will increase collections, and further strengthen the Trust Fund.

In yet another aggressive step to enforce the sanctity of the Trust Fund, SCDEW has partnered with the South Carolina Attorney General’s Office to prosecute former claimants who fraudulently obtained unemployment insurance benefits. To date, SCDEW has convicted several individuals and expects additional guilty pleas before year end. SCDEW is also publicizing that information to deter future fraudulent overpayments.

The Integrity Department has created a special project team to work “cold case” benefits overpayments and tax debit collections. That team is focused on finding and recovering monies owed to the Trust Fund as far back as the statutes of limitations allow. While those case workers concentrate on the “old” debt, other teams actively seek recovery of more recent overpayments and delinquent taxes.

Perhaps the sharpest tool in the agency’s initiatives to protect the Trust Fund is the brand new professional certification process every UI staff member will receive. Beginning in August 2012, SCDEW began administering certification exams on the fundamental skills needed to serve the taxpayers in the local offices across the state. Every UI employee in the local offices was given extensive training in the basics of unemployment insurance principles and procedures starting with a “Boot Camp” series at SCDEW headquarters and followed by webinars, in-person training sessions and on-line tutorials to make sure that all staff members were provided with the necessary materials to know how to do their jobs. Then, the employees were tested on the information so that they could demonstrate to themselves and the public that they truly are professionals in their field of expertise. This process of certification will be replicated throughout the agency as each area develops its own training and testing materials. The deployment of the workforce certification program is part of a strategic plan for staff development to ensure the maintenance of the UI program’s integrity.

Agency Recommendations

Tax Structure

The agency has undergone a tremendous amount of change in the past three years. The agency currently recommends allowing the tax changes to continue to take effect and then to reevaluate the status of the Trust Fund over the next few years. The new tax laws are designed to return the Trust Fund to solvency by CY2015, and the fund is doing as well if not better than planned. As more is known about how the economy is recovering and the effect of the new taxes on employers, the agency will be in a better position to offer additional recommendations.

Fraud Penalties and Proposed Legislation

SCDEW recommends legislation that would impose stronger penalties for individuals who fraudulently claim unemployment insurance benefits. The agency supports a tiered penalty proposal that would provide progressive penalties for individuals who repeatedly engage in this fraudulent activity. Under the proposal, the penalty structure would be as follows:

1. First offense – Administrative Overpayment Penalty of 50 percent of the balance of the established overpayment along with a corresponding Administrative Disqualification as prescribed by South Carolina Code Section 41-41-40.
2. Second offense – Administrative Overpayment Penalty of 100 percent of the balance of the established overpayment along with a maximum allowable Administrative Disqualification as prescribed by South Carolina Code Section 41-41-40.
3. Third /Subsequent offense(s) – Administrative Overpayment Penalty of 100 percent of the balance of the established overpayment along with a corresponding Administrative Disqualification of three (3) years.

Furthermore, the individual would not be allowed to utilize any qualified weeks (i.e. an offset week) to reduce the established Administrative Overpayment nor would subsequent weeks of unemployment benefits be paid until the balance is paid in full. The agency would continue to pursue all available methods of collection including the Treasury Offset Program, State Debt Offset and wage withholding. The agency would also like to ensure all Administrative Overpayment monies collected would be earmarked for integrity-based projects. It is the agency's opinion that tougher penalties will serve as a deterrent for fraudulent unemployment insurance benefits activity.

There is additional proposed legislation concerning overpayment penalties and non-removal of charges for businesses who fail to respond to claims in a timely and adequate manner and those bills could also improve the condition of the Trust Fund if passed. SCDEW will submit recommendations for proposed legislative solutions before the next session.

Elimination of Duplicate Reports

SCDEW respectfully submits that one annual trust refund report is an effective and expedient manner of communicating the health of the Trust Fund to the General Assembly, the Review Committee and the Governor. At present, two annual reports are required. One by South Carolina Code Section 41-29-280 (due January 15th) and another by Section 41-33-45 (due October 1st). The Legislative Audit Council also has made this recommendation. By no means is SCDEW suggesting that an annual report should not be required or that one is not important. Rather, the request is merely that there may be one instead of two.

Conclusion

While the agency continues to face a tremendous challenge to repay the current outstanding advances and restore the Trust Fund to accepted levels of solvency, it remains encouraged by the major tax changes passed by the General Assembly in the spring of 2010. These new tax changes are working; the revenue brought into the system now more closely matches the expected income needed by the system to fund benefit, loan, and interest payments. Also, having the ability to assign tax rates to employers that more accurately reflect the risk they pose to the UI system is a significant advancement toward the agency's goal of restoring the solvency of the Trust Fund while providing appropriate incentives to those employers who maintain stable employment.

With the Trust Fund now on the path to solvency, the agency's focus can now turn to restoring the integrity of the unemployment insurance program. In the coming months, SCDEW will utilize a myriad of initiatives geared towards increasing the program's integrity. These include: developing and deploying new training for agency staff; developing a digital fact-finding application to enhance consistency and integrity of fact-finding throughout the state; integrating data from the National Directory of New Hires and the State Directory of New Hires into internal agency data to detect and deter overpayments; and developing and deploying a new marketing campaign aimed at improving both employer and claimant awareness of and responsibility for the unemployment compensation program. The ultimate goal of these initiatives is to promote the idea that "everyone owns integrity" and we all have a part to play in minimizing improper payments and keeping tax burdens low.

The combined efforts of our new tax system and our focus on detecting and collecting fraudulent and non-fraudulent overpayments will help to lower benefit costs to the system and thus restore the Trust Fund to solvency more quickly. In sum, the South Carolina Department of Employment and Workforce is confident that the Trust Fund is well on its way to recovery.